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# JAPAN'S FAST-FOOD INDUSTRY: Export Potential for U.S. Products

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## Summary

Although less than 5 years old, the Japanese Western-style fast-food industry is booming.<sup>2</sup> The combination of U.S. technology and fast-food expertise, strong financial backing by some of the leading Japanese trading companies, and popularity of Western-style foods with the "35 and under" population group have been responsible for the rapid growth of the industry.

Top management of the leading Western-style menu fast-food chains in Japan are highly optimistic about the future of the industry in that country. In 1973, these chains had 573 outlets which generated a sales volume of almost \$82 million. The number of outlets operating by the end of 1974 was estimated at 785, or an increase of 37 percent over 1973. Based on this number of outlets, 1974 sales were at the \$124 million level. Executives of these firms expect a fivefold increase in their business operations in the next 5 years, resulting in a Western-style fast-food industry of nearly 4,000 units with sales of more than \$700 million by 1979.

Most of the Western-style chains in Japan have joint venture or technical tie-in arrangements with U.S. firms, but a few are wholly owned by Japanese firms. These are currently small in number but plan to expand more rapidly in the next 5 years than those having U.S. affiliation.

Hamburger and fried chicken fast-food enterprises ranked first in number of outlets in 1972, but by the end of 1974, the increase in number of ice cream and donut outlets was proportionately greater because the new outlets were mostly carryout stores requiring less capital for building and land.

Hamburger and fried chicken chains led the field in sales in 1974 followed by donut, pizza, and ice cream. Pizza outlets had the highest annual average sales per outlet at \$259,000, followed by hamburger and fried chicken at \$225,000. Ice cream and donut outlets had the lowest annual sales per outlet, averaging about \$130,000.

Outlets that specialized in cereal products (donuts, pizza) had the lowest food costs, averaging 30 percent per sales dollar. Food costs as a percent of retail sales for animal product outlets (hamburger, chicken, and ice cream) averaged 43 percent. The industry average was 40 percent.

In total, the Western-style fast-food industry in Japan used approximately 69 million pounds of food products in their 1974 operation, having a wholesale value of \$33.5 million. Most food products were fresh or frozen with cereal and dairy products accounting for the largest volume. Very few canned or dehydrated items were purchased. With an anticipated fivefold growth by 1979, the Western-style fast-food industry, not including inflationary effects, could be consuming about 350 million pounds of processed food with a wholesale value of around \$170 million.

<sup>1</sup> Foreign Agricultural Service requested Economic Research Service to undertake this study as an aid in planning present and future market development programs. In planning and executing this report, the authors gratefully acknowledge the assistance of W. L. Phillipsen and Kuno Uyeno, Office of U.S. Agricultural Attaché, Tokyo; and Atsuko Morimoto, interpreter.

<sup>2</sup> Phillipsen, W. L., and Uyeno, K., "Potential for Institutional Foods in Japan," *Foreign Agriculture*, U.S. Dept. Agric., Aug. 1974; "Fast-Food Business Enters Second Round of Development," *The Japan Economic Journal*, Sept. 10, 1974.

An earlier study of the U.S. fast-food industry indicated that Japan was a primary target of foreign expansion.<sup>3</sup> Aside from the financial benefits of this growth to U.S. fast-food companies, some important export potentials exist for U.S. products. The Japanese desire to adhere closely to franchise specifications for such items as food products, nonfood supplies, equipment, and furnishings, providing the United States with built-in advantages as a supplier. Approximately \$56 million was spent to equip and furnish the 785 units operating in 1974. Without allowing for inflationary effect, the cost is estimated to increase to \$280 million by 1979 for equipping and furnishing the nearly 4,000 units planned to be operational by that time. These figures do not include cost of site acquisition or building.

Most Western-style fast-food operators buy their supplies directly from Japanese distributors. However, most of the commodities originate from the United States or third-country suppliers. Operators of fast-food outlets were unanimous in their satisfaction with local suppliers in terms of timeliness, product availability, and quality aspects. About half the operators regard supplies from the United States about the same or more expensive than those purchased locally. However, a large number of operators feel that since the United States is the sole source of supply for some products, price is of secondary importance.

More than half the sample fast-food firms in Japan reported having trade barrier problems, particularly regarding quotas, food additives, and classification regulations. Most complaints involved beef import quotas. Complaints were voiced that some U.S. food and equipment suppliers are not familiar with Japanese import regulations, particularly on food products, and do not supply realistic cost information on delivery to Japanese distribution points. On U.S. equipment and supplies, Japanese fast-food operators had complaints about long delays in obtaining spare parts and poor servicing of equipment.

The objective of the research findings presented here is to aid the Foreign Agricultural Service (FAS) in planning its market development program in Japan by determining present and potential markets for U.S. processed, semiprocessed, and bulk commodities in that industry.

## Background

Interviewing and sampling were the instruments employed in obtaining the data in this report. The Office of the U.S. Agricultural Attaché in Tokyo arranged appointments and provided an interpreter. Field interviews, consisting of 24 personal interviews ranging from

1½ to 3 hours, were completed in October 1974. All major Japanese fast-food chains having joint venture or technical tie-ins with the U.S. fast-food industry were included, along with many of the leading wholly owned Japanese fast-food chains with Western-type menus. To gain insight into Japanese traditional fast-food operations, interviews were held with officials of a large noodle fast-food enterprise and leading institutional feeders.<sup>4</sup> Several food service association officials also were interviewed to develop an information base on the entire Japanese food service industry.

Specific objectives of the study were to determine: (1) Current industry size and growth expected in the next 5 years; (2) quantities of specific foods used in fast-food operations and respective dollar cost; (3) supply environment and satisfaction with supplies and suppliers; (4) current status and future export potentials for U.S. products.

## Structure and Size of Fast-Food Industry

The entire Japanese food service industry consists of more than 500,000 units scattered throughout Japan with the largest concentration in Tokyo. Most of these enterprises are small or medium-sized operations. For example, in an industry with almost \$12 billion in sales in 1973 only four companies had more than \$10 million annual sales.<sup>5</sup> The fast-food sector including Western-style and traditional outlets accounted for a very small portion of these totals.

The Japanese fast-food industry is made up of two sectors: (1) Traditional types, in operation for many, many years and (2) Western-style outlets introduced into Japan less than 5 years ago. The older fast-food outlets in Japan generally feature traditional kinds of Japanese foods such as sushi (raw fish and rice snacks), yakitori (grilled chicken on a skewer), and Chinese noodles. The first Western-style menu franchise chain operations got underway in 1970 and began to change the character of Japan's fast-food industry. By 1973, the Japanese fast-food industry was comprised of 43 fast-food chains, of which 24 served Western-style menu items. The number of firms in operation and their food specialties were as follows: 17 offered Chinese noodles; 10 featured hamburgers; 4, ice cream; 5, fried chicken; 2, sushi; 2, donuts; and 3, pizza chains. In 1973 the Japanese fast-food industry had nearly 3,600 sales outlets and sales of \$237 million. Traditional fast-food outlets accounted for 80 percent of the establishments and nearly two-thirds of the sales (table 1).<sup>6</sup>

<sup>4</sup> Sample firms are listed in Appendix B.

<sup>5</sup> Data on size of food service industry in Japan were obtained from Thomas Sakamoto and Associates, consultants to the Japanese Franchise Association.

<sup>6</sup> Conversions of yens to dollars are made throughout the report on the basis of 300 yens to US\$1.

<sup>3</sup> Dwoskin, Philip B., "Fast-Food Franchises: Market Potentials for Agricultural Products in Foreign and Domestic Markets," *Marketing and Transportation Situation*, U.S. Dept. Agric., Feb. 1975.

## Western-Style Fast-Food Firms

**Type of Ownership**—Three kinds of ownership are prevalent in the 23 Japanese Western-style chains surveyed. First is the **technical tie-in** type. Japanese companies, such as the large trading companies, retail supermarkets, restaurant chains, and even some industrial firms, buy the technology and expertise of U.S. fast-food companies via a licensing arrangement. Under this arrangement, the Japanese firms usually make a substantial payment to obtain the franchise rights, plus a royalty fee per annum of 2.5-3.5 percent of gross sales. More than half (13) of the Western-style fast-food firms are in this category.

Another type of ownership is **joint venture**. U.S. fast-food companies usually have up to half the invested capital. About one-fourth (5) of the Western-style chains operating in Japan are in this category. The third segment of the industry is made up of wholly owned Japanese firms (5) that have copied Western fast-food menu items and format and, in some instances, have added some of their own menu innovations. The wholly owned Japanese firms plan to expand more rapidly than those with U.S. affiliation because they already have, in many instances, building sites for fast-food outlets (table 2).

**Performance**—Western-style fast-food operations surveyed in Japan had only 16 percent of all fast-food outlets (573), but accounted for over one-third of total industry sales (\$82 million) in 1973. Hamburger and fried chicken operations dominated, accounting for 52 percent of the sales and 42 percent of the outlets. These were followed by donuts, having 21 percent of the sales and 23 percent of the outlets; pizza with 18 percent of the sales and 8 percent of outlets; and ice cream accounting for 10 percent of the sales and 27 percent of outlets.

Operators of fast-food outlets surveyed estimated that by the end of 1974 there would be 785 sales outlets in operation or an increase of 37 percent over 1973. Thus sales for 1974, based on 1973 averages, are estimated at almost \$125 million. Similarly, if 1979 expansion goals for nearly 4,000 sales outlets are reached, they will be generating retail sales of more than \$700 million, even on the basis of 1973 prices (tables 3, 14).<sup>7</sup>

**Sales Per Unit**—Pizza outlets had the highest average sales at nearly \$240,000 per unit in 1973 due to their larger seating capacity and higher beverage sales. Hamburger and fried chicken outlets were a close second at \$225,000 per unit. Ice cream and donut chains had the lowest average sales per unit, approximately \$130,000 (table 3).

<sup>7</sup> Average sales per outlet were used to project sales potential. These data, when used with anticipated growth estimates by industry spokesmen, provide a rough estimate of the future sales volume of the industry.

**Food Costs as Percentage of Sales**—To arrive at a meaningful figure for each company, an attempt was made to include only foods in the cost component estimates. Paper goods, beer, wine, and similar items, were excluded. When these outlets were grouped by major foods featured, the outlets offering cereal products (donuts, pizza) had the lowest food costs (29-30 U.S. cents) per sales dollar. Firms which offered primarily animal products as the main menu item (hamburgers, fried chicken, and ice cream) had a food cost per sales dollar of 43 U.S. cents. The industry average for Western-style outlets was 40 U.S. cents (table 3).

Full-menu operations such as hamburger, fried chicken, and pizza outlets utilized a much greater variety of commodities in their food preparations than did donut and ice cream outlets which offered more limited selections. The major food cost items in the full-line type operations were meat, poultry, dairy products (particularly cheese), and vegetables. For limited menu operations, the major food cost items were dairy products, cereal products, and beverages. The share of cost for each major food category by type of outlet is shown in table 4.

**Kinds and Quantities of Foods Used**—Western-style fast-food chains in Japan use a large variety of food products. Since Western-style outlets rely mostly on imported foods, much of the industry's product needs are met through direct imports of processed products or through imports of bulk commodities which are further processed in Japan for eventual use in the fast-food industry. Most of the products used by fast-food chains in 1973 were either fresh or frozen. Canned items were more prevalent in the condiment lines, such as tomato catsup and mustard, and in pizza making, where canned sauces, pastes, and purees were widely used. Of course, drink and ice cream flavoring materials, spices, and related items also were usually bought in cans. Very few dehydrated items were used by Japanese fast-food chains, reflecting the strong preference for fresh foods in Japan. Frozen food, however, is considered fairly close to fresh in quality and as a result has had good acceptance in Japan.

Cereal and dairy products were the foods used in greatest volume in Western-style fast-food chains, accounting for 61 percent of the quantity usage and 52 percent of the value in 1973.<sup>8</sup> Meat, poultry, and fish accounted for 15 percent of the poundage but almost 27 percent of the total value. Vegetables had 12 percent of the usage in pounds and 7 percent of the value, while fats and oils accounted for almost 8 percent of the pounds and 8 percent of the total value cost.

The fast-food outlets in 1973 used 69 million pounds of food products with an estimated wholesale value of \$33.5 million. While still a small part of the total food service industry, the fast-food sector is the fastest growing portion of the industry in Japan, just as in the United States (table 5).

<sup>8</sup> U.S. dollar value refers to wholesale cost.

## Food Supply Purchase Practices

Most Western-style fast-food firms bought their supplies from Japanese suppliers. While many of them used U.S. food products, these were bought through normal local supply houses. Only a small number of the sample firms said they had direct supply contacts with U.S. suppliers. Most direct purchases were for special products with quality specifications which are important or required by the franchise agreement, such as frozen french fried potatoes, cheeses for pizza, and flavorings called for in donut and batter mix. All firms expressed a high regard for U.S. bulk and processed food products. U.S. wheat, frozen products, and flavoring ingredients were mentioned as being highly regarded.

Operators were unanimous in their satisfaction with local suppliers in terms of timeliness, product availability, and quality aspects. They strongly prefer to deal with local suppliers. Some of the major reasons for this are (1) no language barrier; (2) credit easier to establish; (3) no import problems; and (4) a desire to do business with their own people.

## Price and Quality Comparisons

All but one of the Western-style fast-food operators surveyed who bought from foreign suppliers felt that third-country supply sources were less expensive than Japanese sources. About half of them regarded U.S. sources about as expensive or more expensive than local sources. However, a large number of operators (42 percent) felt that since U.S. suppliers are the sole source for many products used in their operations, price was of secondary importance (tables 6, 7).

Types of food that Western-style fast-food operators regarded as imports are shown in table 8. However, a number of these products are manufactured by Japanese companies that import bulk commodities from the United States and other countries. Some specialty items such as donut mix are manufactured, in some instances, by Japanese flour mills under license with a U.S. firm. Others, such as flavor extracts, frozen french fried potatoes, and onion rings are imported directly from the United States.

The United States is the sole source of some imports, primarily because the Japanese adhere closely to quality specifications specified in the franchise agreement. Also, because the industry is young and total volume small for specific items, some Japanese food manufacturers do not wish to compete for this market, as yet. Some of the U.S. affiliated hamburger chains have had problems getting quality specification french fried potatoes and apple pie stock from local sources. Consequently they are currently importing these items from the United States. Other examples of products bought under quality specifications are shown in table 9.

Much of the equipment and nonfood supplies such as paper goods, kitchen equipment, and furnishings also are bought on the basis of quality specifications as required by the franchise agreement. As is true for food,

the volume is not yet sufficient in many cases to interest local manufacturers in building or manufacturing these specification items. Nearly all Western-style fast-food outlets import supplies and equipment from the United States. The most frequently mentioned nonfood items imported were kitchen and ice cream manufacturing equipment (tables 10, 11).

## Trade Barrier Problems

More than half of the Western-style fast-food operators reported that tariffs, quotas, food additives, and food classification regulations create considerable difficulties in obtaining supplies from foreign countries. The strongest complaints involved beef import quotas. Limitations on imports of hamburger are obviously crucial to the Western-style hamburger chains operating in Japan. These restrictive quotas inhibit their growth plans, particularly by adversely affecting their efforts to maintain a low-cost image.

Several Japanese officials mentioned a number of product classification problems. A good illustration is hot chocolate syrup, being test marketed in Japan with results thus far indicating a high potential for success. The problem is that syrup presently is classified by the Japanese Government as a confectionary item because of its high sugar content and thus has a 40 percent import duty. If efforts to have syrup reclassified as an ingredient are successful, the duty will drop to 10 percent.

Japanese food regulations on additives also are very strict; in some instances stricter than U.S. standards. A good example is the sulphur dioxide content limitation of 30 parts per million (ppm) on dehydrated potatoes while in the United States industry averages range between 200-600 ppm (tables 12, 13). This problem is being discussed by Japanese and U.S. officials.

## Growth Potential—Size and Structure

A realistic appraisal of export potentials for U.S. products in Western-style fast-food franchised outlets in Japan included data concerning (1) anticipated growth in sales outlets for the next 5 years in Japan and other foreign areas, and (2) kinds of U.S. products with export potential.

Officials of Western-style fast-food firms in Japan expect to have 785 sales units in place by the end of 1974, an increase of 37 percent over the previous year. By 1979, these firms expect an increase of 409 percent for a total of nearly 4,000 sales units. The large increase in sales units will be due, in part, to some companies changing to smaller carryout operations or mini-stores. The fivefold expansion plans reflect a strongly optimistic outlook for the future. This sector of the Japanese fast-food industry should provide good opportunities for expansion of U.S. products in Japan.

By 1979, hamburger and ice cream chains will become more dominant in terms of number of sales

outlets, accounting for 68 percent of all fast-food chains, compared with 55 percent in 1974. This reflects, in part, the movement toward mini-stores among ice cream chains. Pizza chains will account for 13 percent of the total fast-food outlets in 1979, compared with 8 percent in 1974. Donut and fried chicken operations will become less dominant in terms of number of outlets (table 14).

Growth in sales outlets will be greater among Western-style fast-food chains which are wholly owned by Japanese. These firms will account for 46 percent of the total Western-style fast-food outlets in 1979, compared with 36 percent in 1974. This increase reflects plans of some firms to move toward mini-stores. Firms with U.S. franchise ties are not yet moving as strongly in that direction. Most U.S. affiliates plan to stick closely to franchise specifications relating to food, supplies, equipment, and building size. U.S. joint venture firms will have about one-fourth of the total sales outlets in 1979, the same as in 1974. Firms with U.S. technical tie-in affiliations will have a smaller share, 29 percent in 1979, compared to 38 percent in 1974 (table 2).

Much of the growth planned by 1979 will take place in Japan, primarily because franchise agreements limit operations for Japanese affiliates to areas within Japan. However, some of the wholly owned Japanese sample firms are planning to expand to other countries. They are looking at large population centers nearby, such as in Korea, Singapore, and Hong Kong. In some instances, these companies are examining the possibilities for expansion in the United States and Canada.

## Export Potential

**Food Products**—Almost two-thirds of the 23 Western-style fast-food operators interviewed see their industry as a good market for U.S. processed and semiprocessed food products. Frozen beef items, particularly of the portion control type, received the most mention (22 percent) when operators were asked to give examples of the kinds of U.S. foods having the best export potential. The popularity of frozen foods is further evidenced by the fact that almost half of the specific items mentioned were frozen. This is not surprising since the Japanese consider the frozen form closer to fresh in quality than any other processed form (tables 15, 16).

An estimate of potential for specific commodities can be made by expanding the current usage data by the anticipated growth rate for Western-style fast-food firms which is expected to be fivefold by 1979. Applying this growth to current poundage and value data (not including inflationary effects), Japanese Western-style fast-food outlets by 1979 are estimated to be using about 350 million pounds of food products and have a wholesale value of around \$170 million.

These projections for growth of Western-style foods in Japanese diets must, however, be tempered somewhat by the impacts of inflation and Government policy. According to the *Japan Economic Journal*, inflation has caused many Japanese to return to traditional foods

such as rice instead of the higher cost imported foods.<sup>9</sup> Indications of this trend are that Japanese consumption of meat has not kept pace with increases in income in recent years. However, the phenomenal increases in consumption of grains and meats made during the entire post-war years show that these foods are now an integral part of the food consumption pattern in Japanese households. While it is likely that consumption gains for Western-style foods may slacken in the future due to inflation and Government policy, the popularity of these foods among younger Japanese is at such a high level that the longrun outlook appears good.

A further indication of the popularity of Western foods is shown by yearly expenditure data published by the Japanese Government. Latest available statistics for 1974 show that the average Japanese household has increased annual expenditures for meals such as Western-style fast foods, by 86 percent since 1971.<sup>10</sup>

**Equipment and Supplies**—A major market, current and potential, exists for furnishing and equipping a growing number of new outlets. Most of the fast-food operators prefer U.S. equipment such as pizza ovens, merchandising display cases, chicken cutters, milkshake mixers, and grills. Some operators also are continuing to buy paper goods, furniture, and decorator items from the United States for their current outlets and plan to continue such purchases for new outlets. More than one-third of the officials interviewed felt that the United States could be an important supplier for these items in the future (table 15).

If growth proceeds according to announced plans, a total of \$279 million will have been spent by 1979 on supplies, furnishings, and equipment by the Western-style fast-food outlets in Japan. Many of these items will probably come from the United States because most of the industry which has franchise agreements with U.S. operations has tended to adhere strictly to franchise specifications.

The greatest growth in terms of number of units is expected in fast-food operations featuring such major food service as hamburgers, ice cream, and pizza. For example, hamburger outlets are expected to account for almost 45 percent of the new fast-food units in operation by 1979. Pizza units, while accounting for a much smaller number of units, will on the other hand generate a disproportionately larger share of the supply and equipment expenditures because these outlets are larger in terms of seating capacity and require more kitchen equipment. Ice cream outlets with the second highest number of units projected by 1979 will generate less expenditures because the emphasis will be on carryouts with little or no seating capacity (table 17).

<sup>9</sup> "Unique Japanese Eating Habits Look Due to Last for Long Time," *The Japan Economic Journal*, Feb. 11, 1975.

<sup>10</sup> *Annual Report on the Family Income and Expenditure Survey 1971*. Bureau of Statistics, Office of the Prime Minister, Japan; *Monthly Report on the Family Income and Expenditure Survey*—Jan. 1974–Nov. 1974. Bureau of Statistics, Office of the Prime Minister, Japan.

## Conclusions

Although an assessment of potential and likelihood of achievement is highly subjective and based mainly on impressions, intuition, and projections received from interviews with Japanese officials, the conclusions are valid because of several factors: (1) All major Western-style fast-food firms were included in the sample; (2) the respondents were all top-level management people and (3) a research approach, not a sales approach was used, which helped develop a rapport conducive to an open, objective discussion.

The strongest advantages U.S. products have in the Japanese market are that, with a very few exceptions, Japanese Western-style fast-food executives regard them highly, respect U.S. fast-food technology, and believe strongly in the necessity of sticking to the specifications, food and nonfood, of the franchise agreement. Wholly owned Japanese operators of Western-style fast-food enterprises also believe in faithfully copying U.S. fast-food operations in terms of style, furnishings, and menu. However, despite the favorable prevailing attitude, and the fact that in some instances the United States is currently the sole supplier of some of these products, this advantage can only be maintained in the future through price competitiveness and good trade servicing.

A number of Japanese fast-food executives have suggested ways for U.S. products to capture a larger share of the Western-style fast-food market in Japan. First, U.S. exporters should keep informed on food and cost data on the Japanese market. They should be in a position to provide a detailed food composition analysis for each food product including the kinds and amounts of additives and preservatives, and the cost of delivery to their Japanese customer's warehouse or distribution center, not just the f.o.b. cost, U.S.A.

Almost all Japanese fast-food executives appear optimistic about the future. The plus factors do appear to somewhat outweigh the negative ones: Western-type fast-food outlets are growing much more rapidly than the rest of Japan's food service industry because most firms are backed by some of the strongest financial interests in Japan. U.S. fast-food technology and expertise are being used almost totally, allowing Japanese operators to avoid many of the problems U.S. fast-food operators had to resolve by trial and error in the early development stage of the U.S. industry. The affluence of the Japanese economy and changing life

styles, particularly of the younger generation, create a fertile environment for Western-style fast-food growth.

Some of the negative factors to be considered are: Japan's 1974 inflation rate of over 25 percent, compared with the U.S. rate of 12 percent, has created pressures on food costs which work against the Western-style fast-food credo of "economic, fast, and delicious" as stated by one Japanese fast-food executive. Another important fact working against rapid expansion is scarcity and high costs of desirable locations. A third uncertainty is Japanese Government policy on food imports.

Another barrier to market penetration and repeat business on nonfood items, particularly equipment, is the spotty performance by some U.S. equipment manufacturers in terms of long delays in furnishing spare parts and poor servicing of equipment. Establishment of service centers and supply depots for spare parts is essential for success in Japan's equipment market.

Due to the unstable nature of the world economy, it appears that the fast-food industry, like most other commercial ventures today, will not have "smooth sailing" in the next several years. But, in the next 5-10 years, the industry should be able to move toward its expansion goals due to the foundation of financial strength, the high level of usage of Western technology and expertise and, most important, the high caliber of personnel working in Japan's fast-food and associated industries.

Because of such problems as inflation and land costs, the fast-food situation in Japan should be monitored annually for the next several years. Similarly, certain sectors of the Japanese food service industry should be monitored because Western-style foods are more adaptable than native-style foods to large scale institutional feeding operations. Institutional feeding is expanding rapidly in the major cities of Japan and a strong interest exists in U.S. feeding system technology. This could result in substantial markets for U.S. processed and semiprocessed products.

If fast-food operators meet the announced fivefold expansion goals in the next 5 years, substantial export potentials will exist for U.S. wheat flour, soybeans, frozen products (particularly potatoes, onion rings, and beef, if import quotas can be arranged), flavor extracts for ice cream and soft drinks, spices, and a number of other specialty products. In addition, large markets for U.S. paper goods, kitchen equipment, and furniture are also likely.

## Appendix A—Tables

TABLE 1.—FAST-FOOD INDUSTRY IN JAPAN, 1973

Major food specialty	Firms	Sales volume		Sales outlets	
	<i>Number</i>	<i>Mil. dols.</i>	<i>Percent</i>	<i>Number</i>	<i>Percent</i>
Chinese noodle .....	17	120.5	50.9	2,615	74.0
Sushi .....	2	18.9	8.0	235	6.6
Donut .....	2	18.6	7.8	128	3.6
Fried chicken .....	5	41.9	17.7	198	5.7
Hamburger .....	10	33.2	14.0	232	6.4
Ice cream .....	4	2.4	1.0	124	3.5
Pizza .....	3	1.4	0.6	5	.2
Total .....	43	236.9	100	3,537	100

Source: T. Sakamoto, consultant to Japan Franchise Chain Association.

TABLE 2.—SAMPLE WESTERN-STYLE FAST-FOOD CHAINS IN JAPAN - CURRENT AND PROJECTED NUMBER OF SALES OUTLETS BY TYPE OF OWNERSHIP 1973, 1974, AND 1979

Type of ownership	Fast-food firms		Fast-food sales outlets					
			Actual 1973		Estimated 1974 <sup>1</sup>		Projected 1979 <sup>1</sup>	
	<i>Number</i>	<i>Percent</i>	<i>Number</i>	<i>Percent</i>	<i>Number</i>	<i>Percent</i>	<i>Number</i>	<i>Percent</i>
Technical tie-in .....	<sup>2</sup> 13	56	198	35	294	38	1,169	29
Joint ventures .....	<sup>3</sup> 5	22	148	25	207	26	1,000	25
Wholly owned Japanese .....	5	22	227	40	284	36	1,825	46
Total .....	23	100	573	100	785	100	3,994	100

<sup>1</sup> Estimated by respondents.

<sup>2</sup> Four chains in test stage and/or under negotiation.

<sup>3</sup> One chain in test stage.

TABLE 3.—WESTERN-STYLE SAMPLE FAST-FOOD CHAINS, CURRENT AND PROJECTED SALES, 1973, 1974, AND 1979; AVERAGE SALES PER UNIT, 1973; FOOD COSTS, 1974

Major food specialty	Actual 1973	Average sales per unit	Annual sales estimated 1974 <sup>1</sup>	Projected 1979 <sup>1</sup>	Food costs as percent of sales 1974 <sup>2</sup>
	<i>\$1,000</i>	<i>\$1,000</i>	<i>\$1,000</i>	<i>\$1,000</i>	<i>Percent</i>
Donut .....	17,450	130	19,082	47,753	29
Hamburger, fried chicken .....	42,204	225	72,605	417,752	43
Ice cream .....	7,333	139	14,224	114,767	43
Pizza .....	14,753	239	18,847	129,333	30
Total .....	81,740	—	124,758	709,605	40 av.

<sup>1</sup> 1974 and 1979 sales were derived from estimates by respondents.

<sup>2</sup> Weighted average based on sales for each chain within each major food specialty category.



TABLE 4.—COST DISTRIBUTION OF FOOD BY TYPE OF FIRM, AND MAJOR FOODS SERVED  
IN SAMPLE WESTERN-STYLE FAST-FOOD OUTLETS  
[U.S. Cents]

Food category	Food cost per sales dollar by type outlet			
	Hamburger, fried chicken	Ice cream	Donut	Pizza
Meat, poultry, eggs .....	16	—	1	3
Fish, seafood .....	2	—	—	3
Vegetables .....	5	—	—	3
Cereal products .....	2	2	19	3
Dairy products .....	10	32	—	13
Fats, oils .....	3	—	3	2
Beverages (incl. soft drinks) .....	3	7	3	3
Misc. products (incl. sugar, fruit filling, flavors, condiments etc.) .....	1	1	3	—
Wastage .....	1	1	—	—
Total .....	43	43	29	30

TABLE 5.—QUANTITY AND VALUE OF FOOD COMMODITIES USED BY WESTERN-  
STYLE JAPANESE FAST-FOOD CHAINS, 1974

Commodities	Annual volume		Wholesale cost	
	Quantity	Percent of total	Value	Percent of total
	<i>1,000 lb.</i>	<i>Percent</i>	<i>1,000 dol.</i>	<i>Percent</i>
Meats .....	5,956	8.6	5,367	16.0
Poultry and eggs .....	4,628	6.7	3,574	10.7
Fishery products .....	167	.2	35	.1
Vegetables .....	8,439	12.2	2,311	6.9
Cereal products .....	20,490	29.7	8,955	26.7
Dairy products .....	21,481	31.1	8,646	25.8
Fats and oils .....	5,367	7.8	2,771	8.3
Miscellaneous products (condiments, etc.) ..	2,521	3.7	1,824	5.5
Total .....	69,049	100	33,483	100

TABLE 6.—SURVEY QUESTION: "ARE FOOD SUP-  
PLIES BOUGHT FROM FOREIGN SUPPLIERS,  
OTHER THAN UNITED STATES, LESS EXPENSIVE,  
MORE EXPENSIVE OR ABOUT THE SAME AS  
BOUGHT FROM JAPANESE SUPPLIERS?"

Reply	Firms	
	<i>Number</i>	<i>Percent</i>
Less expensive .....	8	89
More expensive .....	—	—
About same .....	1	11
Total .....	9	100

TABLE 7.—SURVEY QUESTION: "ARE FOOD SUP-  
PLIES BOUGHT FROM UNITED STATES, LESS EX-  
PENSIVE, MORE EXPENSIVE OR ABOUT THE SAME  
AS BOUGHT FROM JAPANESE SUPPLIERS?"

Reply	Firms	
	<i>Number</i>	<i>Percent</i>
Less expensive .....	2	11
More expensive .....	5	26
Same .....	4	21
Sole source (quality and supply stability first, price secondary) .....	8	42
Total .....	19	100

TABLE 8.—FOOD IMPORTS OF WESTERN-STYLE FAST-FOOD CHAINS BY COUNTRY OF ORIGIN

United States	Australia	Canada	Scandinavian	Holland	New Zealand
Wheat	Beef	Wheat	Cheese	Cheese	Hamburger
Fruit fillings	Franks	Frozen potatoes			
Frozen potatoes	Beef patties				
Dried onions	Frozen beef				
Frozen corn on cob	Canned tomatoes				
Hot chocolate syrup	Cheese				
Orange extract					
Onion rings					
Drink flavors					
Spices					
Cheese					
Choice beef					

TABLE 9.—EXAMPLES OF FOODS PURCHASED BY WESTERN-STYLE FAST-FOOD FIRMS ON BASIS OF QUALITY SPECIFICATIONS

Food purchased	Quality specifications	Number of firms
Donut flour mix . . . . .	Proprietary ingredients and recipe	2
Shake mix . . . . .	Butterfat percent, viscosity	1
Chicken . . . . .	Size of bird, age of bird	1
Catsup . . . . .	Viscosity, acidity, color	1
Meat patties . . . . .	Size, weight, percent fat, water, 100% beef	5
Ice cream mix . . . . .	Proprietary ingredients and recipe	2
Franks . . . . .	Size, weight	1
Tomato products . . . . .	Percent sugar & acidity, density	3
Flour . . . . .	Percent gluten	1
Vegetables, bread, pastries . . . . .	Size & weight	3
Specs. of U.S. franchise agreement . . . . .	All foods	5
Total . . . . .		<sup>1</sup> 24

<sup>1</sup> Some respondents mentioned more than one type of food.

TABLE 10.—SURVEY QUESTION: "DO YOU PURCHASE ANY SUPPLIES OTHER THAN FOOD FROM FOREIGN COUNTRIES?"

Reply	Firms	
	Number	Percent
Buys nonfood imports . . . . .	16	84
Does not import nonfood supplies . . . . .	3	16
Total . . . . .	19	100

TABLE 11.—NONFOOD IMPORTS OF WESTERN-STYLE FAST-FOOD CHAINS BY COUNTRY OF ORIGIN

Nonfood import item	Country of origin	Frequency of mention	
		Number	Percent
Paper goods .....	United States	4	13
Kitchen equipment (ovens, cutters, grills, mixers, slicers, etc.) .....	United States	13	43
Ice cream equipment (showcases, mix machine, etc.) .....	United States	5	17
Beverage machines and merchandizers ...	United States	3	10
Interior decor (furniture, etc.) .....	United States, Spain, Bolivia	5	17
Total .....		<sup>1</sup> 30	100

<sup>1</sup> Some respondents listed more than one nonfood import item.

TABLE 12.—SURVEY QUESTION: "ARE THERE ANY BARRIERS SUCH AS TARIFFS OR FOOD REGULATIONS THAT MAKE IT DIFFICULT FOR YOUR COMPANY TO OBTAIN SUPPLIES FROM FOREIGN COUNTRIES?"

Reply	Firms	
	Number	Percent
Import barriers are a problem .....	11	57
Not a problem .....	7	37
Not ascertained .....	1	6
Total .....	19	100

TABLE 13.—SURVEY QUESTION: "IF HAS DIFFICULTIES, PLEASE DESCRIBE."

Reply	Firms	
	Number	Percent
Import quotas (beef, cheese, etc.) .....	9	45
Import duties (chicken, potatoes) .....	3	15
Food classification system (nonliberalized items (syrops, ice cream, ingredients, etc.) .....	3	15
Food regulations (drink flavors, etc.) ....	5	25
Total .....	<sup>1</sup> 20	100

<sup>1</sup> Some respondents cited more than one import barrier.

TABLE 14.—GROWTH RATE AND EXPANSION PLANS FOR MAJOR WESTERN-STYLE FAST-FOOD CHAINS IN JAPAN, BY MENU SPECIALTY 1973-74, 1974-79

Major food specialty	Firms <sup>1</sup>	Sales outlets			Percent change 1973 to 1974	Percent change 1974 to 1979
		1973	1974	1979		
	Number	Number	Number	Number	Percent	Percent
Donut .....	3	129	164	421	27	157
Fried chicken .....	2	109	125	300	15	140
Hamburger .....	8	132	227	1,408	72	520
Ice cream .....	4	156	205	1,275	31	522
Pizza .....	4	47	62	530	32	755
General menu .....	2	—	2	60	—	2,900
Total .....	23	573	785	3,994	37 av.	409 av.

<sup>1</sup> Includes four firms in test stage at time of interview.

**TABLE 15.—SURVEY QUESTION: "DO YOU THINK THERE IS A MARKET FOR ANY OF THE FOLLOWING U.S. PRODUCTS IN FAST-FOOD OPERATIONS IN JAPAN?"**

Replies	Kinds of U.S. products with export potential			
	Processed and semi-processed foods		Paper supplies and equipment	
	<i>Number</i>	<i>Percent</i>	<i>Number</i>	<i>Percent</i>
Yes .....	17	90	12	63
No .....	2	10	7	27
Total ....	19	100	19	100

**TABLE 16.—EXAMPLES OF U.S. PRODUCTS HAVING MARKET POTENTIAL IN FAST-FOOD OPERATIONS IN JAPAN**

U.S. product for import	Frequency of mention	
	<i>Number</i>	<i>Percent</i>
Frozen beef (includes steaks, hamburger, croquettes, dumplings) .....	7	22
Equipment (chicken cutters, ovens, freezer, display case, etc.) .....	4	12
Frozen vegetables .....	3	9
Frozen chicken .....	2	6
Frozen french fried potatoes .....	2	6
Frozen food .....	2	6
Canned vegetables (tomatoes) .....	2	6
Frozen pizza .....	1	3
Frozen tacos .....	1	3
Hot chocolate syrup .....	1	3
Sausage .....	1	3
Dairy products .....	1	3
Flavors .....	1	3
Dehydrated potatoes .....	1	3
Pastry items .....	1	3
Foods for school lunch programs and inplant feeding .....	1	3
Paper goods (buckets, bags) .....	1	3
Furniture and decor items .....	1	3
Total .....	<sup>1</sup> 33	100

<sup>1</sup> Some respondents gave more than one example.

**TABLE 17.—COST OF FURNISHING AND EQUIPPING NEW SALES OUTLETS IN SAMPLE WESTERN-STYLE FAST-FOOD CHAINS BY 1979**

Companies based on major food served	Additional units by 1979	Cost of furnishing and equipping	
		Average per unit	Total
	<i>Units<sup>1</sup></i>	<i>1,000 dol.</i>	<i>1,000 dol.</i>
Donut .....	258	65.0	16,770
Hamburger .....	1,462	87.5	127,925
Fried chicken .....	440	87.5	38,500
Ice cream .....	608	37.5	22,800
Pizza .....	468	150.0	70,200
Total .....	3,236	—	279,195

<sup>1</sup> Total does not include all fast-food chains.

## Appendix B—Japanese Fast-Food Firms Surveyed

Officials of the following fast-food firms in Japan were interviewed for this study:

MR. DONUT (Division of Duskin Co., MR. DONUT of America)	Hello Donuts (Test stage) (Fujiya Co.)
Kentucky Fried Chicken Japan, Ltd. (Heublein, Inc., Mitsubishi Trading Co.)	B. R. Japan Co. (Baskin-Robbins Ice Cream Co., Fujiya Co.)
Dunkin Donuts of Japan Co. (Restaurant Seibu Co., Dunkin Donuts of America, Inc.)	Pizza Hut Japan Ltd. (Test stage) (Pizza Hut Inc., Sumitomo Shoji Kaisha Ltd., Ashai Breweries Ltd.)
McDonald's Co. Japan Ltd. (McDonald's Corp., Fujita & Co.)	Shakey's Japan Ltd. (Shakey's Inc., Mitsubishi Trading Corp., Kinko Shokai Co.)
Nippon Golden Pioneer Corp. (Kyoei Kogyo Co., Tosen Co., Pioneer Takeout Corp.)	Hardee System (Under negotiation) (Kanamatou Goshō, Ltd.)
A & W Franchise Inc. (Chori Co., Meiji Seika Kaisha Ltd., A & W International, Inc.)	Bonanza International, Inc. (Under negotiation) (C. Itoh & Co.)
Dipper Dan Ice Cream Japan, Ltd. (Daiei Inc., Swift & Co.)	Host International (Test stage) (Mitsui & Co., Ltd., Host Jr.)
Lotteria Co. (Lotte Co.)	Tastee Freez-Big T (Royal Foods, Tastee Freez International)
Yukijirushi Snowpia Co. (Snow Brand Milk Products Co., Kyowa Hakka Kogyo Co.)	Giraud Restaurant System (Mitsui & Co.)
Dairy Queen Japan Co. (International Dairy Queen Inc., Marubeni Trading Corp.)	Denny's Japan (Test stage) (Ito Yokado, Denny's Inc.)
Nippon Pizzain Co. (Sumitomo Coal Mining Co., Samiseki Kaihatsu Co., Pizzain Inc.)	Dom Dom (Daiei, Inc.)
Burger Chef Japan Co. (Fujiya Co., General Foods Corp.)	Hokkoku Shoji Co. (Dosanko - Chinese Noodle Franchise Chain)
	Fuji Food Co., Ltd. (Institutional Feeder)

